



Group Health Insurance Updates Presentation

September 22, 2010
1:00 PM

Presentation Roadmap

I. W-2 Forms

II. Federal Early Retiree Reinsurance Program

III. “Cadillac Plans”

IV. Medicare Outreach Programs

W-2 REPORTING

REPORTING COST OF HEALTH COVERAGE ON EMPLOYEE W-2 FORMS

- Section 9002 of Patient Protection & Affordable Care Act
- Effective January 1, 2011 for the 2011 tax year, applicable to W-2s issued in January 2012
- Both insured or self-insured plans must be reported
- Employer and employee costs are aggregated
- The aggregate cost will NOT be included in the employee's taxable income.
- Intended goal commonly considered as a means to track coverage values for the 40% excise tax on “high-cost” plans (“Cadillac plan tax”)

Current Understanding of Definition of Health Care Benefits

- **Includes:**
 - Medical plans
 - Prescription drug plans
 - Dental and vision plans, unless they are “stand alone” plans (i.e., an employee may elect only dental or only vision and is not required to also enroll in medical coverage)
 - Executive physicals
 - On-site clinics if they provide more than *de minimis* care
 - Medicare supplemental policies
 - Employee assistance programs

Current Understanding of Definition of Exclusions

- Long-term care, accident or disability income benefits
- Salary reduction contributions to a Health FSA
- Specific disease or illness policies (such as cancer policies), and hospital (or other) indemnity insurance policies where the full premium is paid by the employee on an after-tax basis
- Archer MSA or HSA contributions of the employee or the employee's spouse (but employer contributions are counted in calculation)

FEDERAL EARLY RETIREE REINSURANCE PROGRAM (ERRP)

ERRP PROGRAM

- Created by the federal Patient Protection and Affordable Care Act to provide claims reimbursements to make health care more affordable for individuals and employers.
- Congress appropriated \$5 billion for the program which provides reimbursements until January 1, 2014 or until funds are exhausted, whichever occurs first.

CLAIMS REIMBURSEMENT

- The City will be reimbursed for 80% of health insurance claims costs per employee that are between \$15,000 to \$90,000 incurred in each plan year by City “early retirees”.
- ERRP defines an “early retiree” as a retiree between the ages of 55 to 64 years old and not yet eligible for Medicare.

CLAIMS REIMBURSEMENT

- Claims must be submitted to the federal government.
- FY'11 (July 1, 2010 – June 30, 2011) is the first eligible claims year for the City.
- It is estimated that the City may receive up to \$7 million in reimbursements for claim year FY'11.

REIMBURSEMENT RULES

- Under ERRP, reimbursements can only be used to offset future health insurance costs.
- Funds cannot be used as general revenue.
- Reimbursed funds received for FY'11 will be received during FY'12 and will be used to offset FY'13 rate increases.

REIMBURSEMENT to CITY and Employees/Retirees

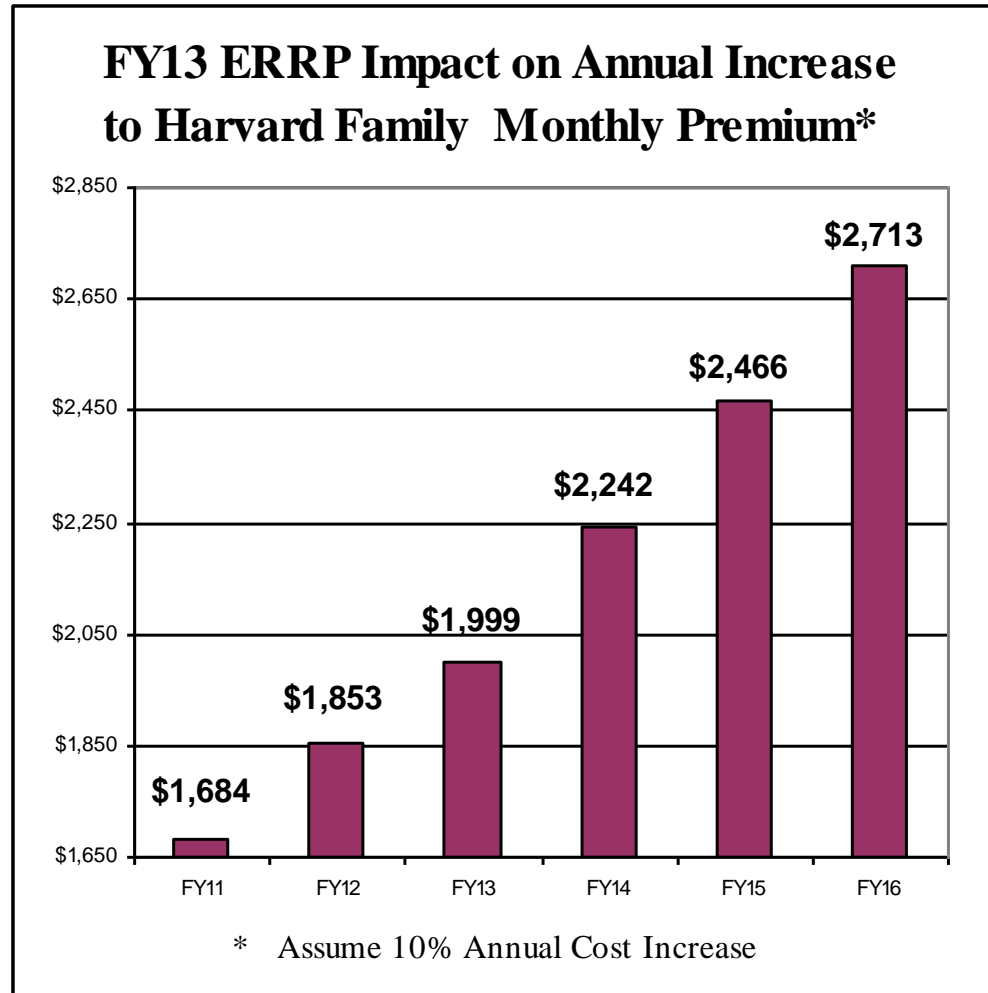
- Funds received will be applied directly to health insurance premiums* in the same proportion as City and employee/retiree contribution split:
75%/25% - Blue Cross plans;
80%/20% - Harvard Pilgrim POS;
85%/15% - Harvard Pilgrim HMO and Neighborhood Hlth
- Overall, this results in a one-year subsidy of roughly \$5 Mil to City and \$2 Mil to employees/retirees.

* Non-Medicare plans only, where applicable bills originated.

Temporary Relief to Annual Increase

- The total reimbursement is estimated to be about 2% of the average premiums, which will reduce FY13 premium increases from an estimated 10% to 8%.
- This is a one-time adjustment to the health insurance premiums.
- Once program funds are exhausted, the health insurance premiums, for both City and employees, will revert to normal costs – requiring a large “catch-up” increase in the following year.

Example of Potential Impact



ERRP Impact Summary

- The total \$5 Mil reimbursement to the City is estimated to be about 2% of the City's FY'13 health insurance budget.
- Again, this is a one-time adjustment to costs, and once funds are exhausted, costs will revert to normal costs – requiring a large “catch-up” increase in the budget the following year.

“CADILLAC TAX”

High-Cost Plan Excise Tax (“Cadillac plans”)

- Section 9001 of Patient Protection & Affordable Care Act
- Scheduled to begin in 2018
- Imposes an excise tax of 40% on insurance companies & plan administrators for plans above the threshold:
 - \$10,200 for individual plans
 - \$27,500 for family plans

What is taxed?

- Tax applies to the amount of the premium in excess of the threshold
- Stand-alone dental and vision plans are excluded from the aggregate value calculation (however, includes plans that embed dental and vision as part of the core medical plan)
- Intended goal is to generate revenue to pay for covering the uninsured; force employers to better control health care costs

Allowable Adjustments to Threshold

- Cost of Living Adjustment
 - threshold would be indexed at CPI-Urban plus one percentage point for 2019 and CPI for years thereafter
- An additional threshold amount is provided for retired individuals over the age of 55 & employees engaged in high risk professions. (e.g. repairing/installing electrical or telecommunications lines)
 - \$11,850 for individual plan (+\$1,650)
 - \$30,950 for family plan (+\$3,450)

Demographic Adjustment

- Employers with higher costs because of age or gender demographics of employees when compared to the age and gender demographics nationally may adjust their thresholds even higher

Towers Watson Study*

- Average individual premium in 2010 - \$5,184
- Average family premium in 2010 -- \$14,988
- Assuming 8% annual cost-trend increase, 60% of large employers will hit 2018 threshold
- Reducing cost trend to 6% will delay impact for as much as 5 years beyond 2018
- If plan is \$1000 over limit, tax is \$400 per employee. Total tax is \$400 times # of employees in plan.

* Reported in Health Plan Week, Volume 20, Number 32, September 6, 2010, Page 1.

Thoughts on potential changes

- “Most analysts...estimate that businesses will respond by changing their benefits to have lower premiums, higher deductibles and copayments and terminating employer contributions to health and flexible spending accounts.”

<http://www.kaiserhealthnews.org/Stories/2010/March/18/Cadillac-Tax-Explainer-Update.aspx>

- “Rather, the cost of these plans will be lowered or more likely, the law will be amended before 2018...” <http://quinnscommentary.com/2010/06/01/there-is-plenty-of-time-to-worry-about-the-high-cost-plan-excise-tax-worry-about-the-health-care-system-now/>

MEDICARE OUTREACH PROGRAM

Quick Section 18A Summary

- With the passage of Section 18a, all Medicare eligible employees who retire on or after July 1, 2010 will be required to enroll in Medicare and a City Senior plan.
- Employees who retired prior to July 1, 2010 are exempt from this law.

What is Medicare?

Medicare is a federally funded health insurance program that has been in place since 1965.

- If your employment with the City began on or after April 1, 1986, you have been contributing 1.45% of your salary into the Medicare system.
- 5,900 City of Boston retirees are currently enrolled in Medicare and one of the six Medicare Senior plans offered by the City of Boston.

City of Boston- Senior Plans

The six Medicare senior health plans offered by the city are:

- Medicare HMO Blue
- Tufts Medicare Preferred HMO
- BCBS Managed Blue for Seniors
- Tufts Medicare Complement
- Harvard First Seniority Freedom
- Master Medical Medicare A&B Carveout

Benefits of Enrolling in a Senior Plan

- By switching to Medicare, a retiree can save money.
- The healthcare benefits will be comparable.
- The retiree remains in the City of Boston's health insurance program.
- The monthly premium for the Senior plan will be deducted from the retiree's Pension check.

Outreach Sessions for Voluntary Medicare Enrollment

- Information sessions will be held in October in different geographical sections of the City to educate Medicare eligible retirees on the benefits of enrolling in a Senior plan.
 - Currently, there are 1,043 eligible retirees age 63 to 65 years old who are members of the State-Boston Retirement system.

Outreach Sessions for Voluntary Medicare Enrollment

- An invitation to attend one of these outreach sessions will be sent to the home addresses of retirees.
- Representatives from Blue Cross, Harvard Pilgrim and Tufts will be at these sessions to counsel retirees, providing educational materials and applications.



Questions?